

Testimony Presented to the House Budget Committee
by the Honorable Mike Pence (R-IN)
February 7, 2001

Thank you Chairman Nussle for inviting my freshman colleagues and me here today to share our thoughts on the budget for the coming fiscal year. As hundreds of layoffs in my Indiana district attest, this economy is listing badly under the weight of eight years of increased taxes and regulation. I come to the committee today to urge the Republican Congress to become the congress of economic recovery by passing tax relief. As President Bush has argued in his tax proposal, and as others and I have argued in the Economic Growth and Recovery Act, a tax reduction will allow families, small businesses and families farms to exercise the entrepreneurial spirit that is imperative to restoring the economic vitality of east central Indiana and the country. It is appropriate that the revival of that spirit will begin here in this committee where tax relief will be reflected in the next budget.

If Congress is to repeal the death tax and the marriage penalty and enact marginal rate reductions the new budget must reflect the fiscal discipline that is necessary for such cuts. The \$5.7 trillion surplus that the CBO has projected must not be the victim of members of Congress eager to appease special interest groups. Rather, Congress should follow the lead of President Bush and begin the charge to trust the people with their money. After saving Social Security, Congress should pass a substantial \$2.2 trillion tax cut. A failure to cut taxes by Congress would not only be a lost investment in the long term economic success of the United States it would bequeath future generations a legacy of irresponsibility. We must set a new precedent in a time of unprecedented surpluses.

As I mentioned earlier, the zero growth economy has already begun to disrupt the lives and businesses of East Central Indiana's residents. Cummins Engine and Daimler Chrysler have already announced layoffs that not only affect the lives of the company workers, but the small businesses whose economic success hinges on the health of the local economy. For that reason, I feel that any action taken by Congress must foment economic recovery in our local communities by enacting tax reductions quickly and completely. Budget spending should in turn reflect this goal. Any marginal tax reduction Congress enacts should be across the board and retroactive to January 1, 2001. Additional, the marriage penalty and death tax reductions should be more inclusive and phased in sooner than what President Bush has requested.

Such a tax cut may be attacked as too risky or irresponsible, yet a \$2.2 trillion tax cut would represent only 1.5% of GDP. Opponents of a significant tax cut do not recognize that the current tax rate on work, savings, and investment penalizes productive behavior and impedes economic growth. At the same time, the growing budget surplus represents lost investment that would undoubtedly cause economic growth.

Anti-tax cut proponents argue that cutting taxes will signal the return of deficits a premise contradicted by Clinton Administration budget documents. In early 1995, nearly 18 months after enactment of the 1993 tax increase, the Office of Management and Budget projected budget deficits of more than \$200 billion for the next 10 years.

Critics also argue that a big tax cut would make it harder to reform Medicare or modernize Social Security by allowing younger workers to shift some of their payroll taxes into personal retirement accounts. Given the magnitude of the projected budget surpluses, there is no conflict between these goals. Moreover, entitlement reform would

be desirable even without a budget surplus because it would significantly reduce the long-run unfounded liability of both programs. Large projected surpluses simply make it easier for legislators to implement the necessary policies.

In summary, I urge the committee to set revenue levels that assume a substantial tax cut like the one offered by the President and our colleague Rep. Pat Toomey of Pennsylvania. In addition, it is my hope that the Budget Committee resolution will include a reconciliation instruction for the Ways and Means Committee to report out a bill that will keep our promise to significantly cut taxes for all Americans.